Microlog Microfiche Collection
Resolution Chart

Copyright

Copyright for the ***contents*** of this microfiche is held by the publisher of the original document. Please contact the original publisher for guidance in all copyright matters. Copyright in this ***microfiche edition*** is held by Micromedia Limited.

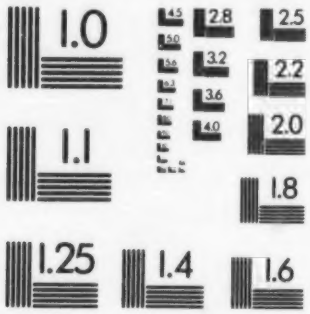
Quality of the Microfiche Reproduction

Micromedia Limited maintains the highest standards for micrographic reproduction. Attempts are made to obtain the best quality print version to microfilm. However, there are some printing styles, colours and graphic layout styles (including maps, graphs and tables) which do not reproduce well. Because of the value of the original document, Micromedia has filmed it recognizing that it may not be as easy to read as the original document.

Some pages have been filmed twice to improve the clarity of the reproduction. Consult both reproductions to ensure that all of the original text is read.

Microcopy Resolution Test Chart
National Bureau of Standards
Standard Reference Material 1010a
(ANSI and ISO Test Chart No. 2)

PM-1 3½"x4" PHOTOGRAPHIC MICROCOPY TARGET
NBS 1010a ANSI/ISO #2 EQUIVALENT



MS109

NATIONAL MICROGRAPHICS ASSOCIATION

24x

micromedia
a division of IHS Canada

20 Victoria Street, Toronto, ON M5C 2N8
Tel.: (416) 362-5211
Toll free: 1-800-387-2689
Fax: (416) 362-6161

Collection MICROLOG sur Micromédia
Tableau de résolution

Droits d'auteurs

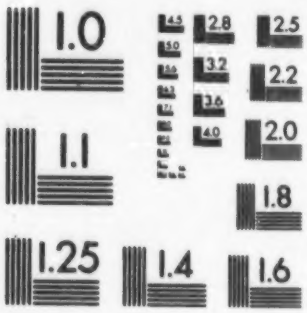
Les droits d'auteurs du conenu de cette microfiche sont détenus par l'éditeur du document original. Veuillez communiquer avec celui-ci pour obtenir des renseignements sur tout ce qui touche les droits d'auteurs. Les droits d'auteurs de cette édition sur microfiche sont détenus par Micromédia Limitée.

Qualité de reproduction sur microfiche

Micromédia Limitée maintient les normes de reproduction micrographique les plus élevées. Elle fait tout son possible pour obtenir la version sur papier à reproduire sur microfiche de la meilleure qualité possible. Cependant, certains styles d'imprimerie, de couleurs et de style de mise en page graphique (incluant des cartes, des grahiques et des tableaux) se reproduisent mal. En raison de la valeur du document original, Micromédia l'a reproduit tout en reconnaissant qu'il ne sera peut-être pas aussi lisable que le document original.

Tableau de résolution micrographique
National Bureau of Standards
Standard Reference Material 1010a
(ANSI and ISO Test Chart No. 2)

PM-1 3½"x4" PHOTOGRAPHIC MICROCOPY TARGET
NBS 1010a ANSI/ISO #2 EQUIVALENT



MS109

24x

NATIONAL MICROGRAPHICS ASSOCIATION

micromedia
a division of IHS Canada

20 Victoria Street, Toronto, ON M5C 2N8
Tel.: (416) 362-5211
Toll free: 1-800-387-2689
Fax: (416) 362-6161

Saskatchewan
Labour

Brief To
The National Pensions Conference

Saskatchewan Canada

Reform of Canada's Retirement Income System - A Saskatchewan View

Presented by
Honourable Gordon T. Snyder
Minister of Labour

March, 1981

101-03332/

REFORM
OF
CANADA'S RETIREMENT INCOME SYSTEM

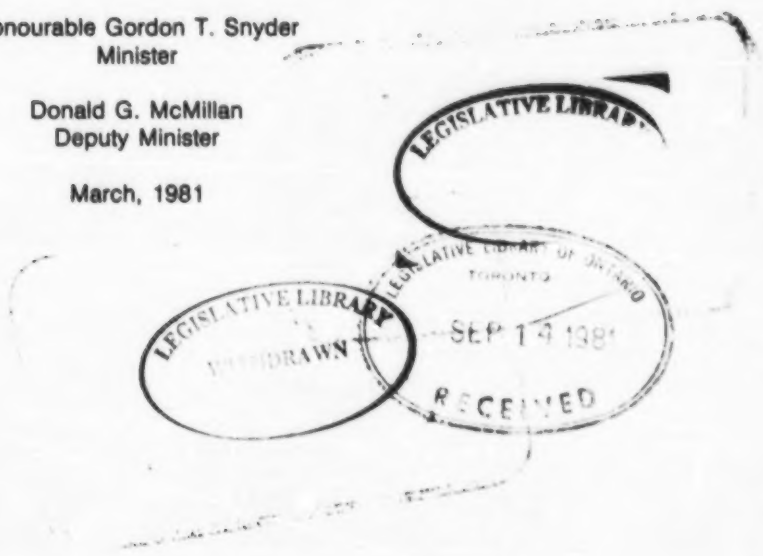
A SASKATCHEWAN VIEW

Published Under Authority of
SASKATCHEWAN LABOUR

Honourable Gordon T. Snyder
Minister

Donald G. McMillan
Deputy Minister

March, 1981



FOREWORD

During the last several years, Canada's retirement income system has received intensive study. Several major governmental reports and private sector studies have been completed. The issues have been identified and analyzed, and a number of alternative solutions for ensuring more adequate retirement incomes in the future have been proposed.

The time for study has now ended. The time for decision-making and concrete action has arrived. Inevitably, this will involve consultation, dialogue and negotiations, but this must be clearly directed toward decision-making within a reasonably short period.

This paper is being presented by the Government of Saskatchewan at this time in the hope that it will contribute to a national decision-making process on reform of Canada's retirement income system. In it, we attempt to outline Saskatchewan's perceptions of the issues, the criteria we believe any adequate retirement income system must meet, and the reasons why we favour expansion of Canada's public pension plans. In short, our purpose in this paper is not to review, summarize, or add to the volume of available research, but to present Saskatchewan's views on reform of Canada's retirement income system. We hope that this will encourage other jurisdictions to do the same, and that this in turn will expedite pension reform in Canada.

Gordon T. Snyder

Gordon T. Snyder
Minister of Labour

REFORM OF CANADA'S RETIREMENT INCOME SYSTEM

A SASKATCHEWAN VIEW

FOREWORD

1. THE ISSUES 1
2. THE NATURE OF THE SOLUTION 7
3. CRITERIA FOR AN ADEQUATE RETIREMENT INCOME SYSTEM 10
4. ASSESSMENT OF THE ALTERNATIVES 12
5. CONTINUITY AND PRECEDENTS 16
6. DESIGN ISSUES WITH RESPECT TO AN EXPANDED C/QPP 18
7. WOMEN AND PENSIONS 23
8. NEXT STEPS 25

GLOSSARY OF TERMS 27

MAJOR GOVERNMENTAL REPORTS 28

SUMMARY OF PENSION BENEFIT ACT AMENDMENTS 29

Pensions Branch
Saskatchewan Labour
March, 1981

1. THE ISSUES

The Position of the Elderly

In Canada's early history, people generally continued to participate in economic activity and family life as long as, and to the extent that they were able to do so.

As our society has become more industrialized, as the extended family has been increasingly replaced by the nuclear family, and as life expectancies have increased, we have evolved a system of retirement for our elderly citizens. This system was developed as a reward for long service with an employer, but has now become generally recognized as a "social right" earned through many years of contribution to the community, whether in the paid labour force or at home.

Our retirement years are portrayed as "golden years". They are to be looked forward to as a time when the demands of daily participation in the labour force are replaced by the opportunities and joys of leisure time.

Unfortunately the reality of retirement for all too many of our older citizens is quite different. All too frequently, the elderly find themselves without a role in the community. They discover that they have become deprived of status, authority and economic security. Their ability to live full and independent lives may be eroded.

While governments have instituted various programs and services to assist the elderly, it remains true that our predominant social values continue to emphasize the young and ignore the elderly. Improving the quality of life for the elderly will therefore require a basic change in social attitudes. Individual and institutional manifestations of our current attitudes will have to give way to much fuller recognition of the value of the elderly as persons who can make a valuable contribution to the community.

It is in this social context that the issue of retirement income security must be addressed. Clearly, improved retirement incomes will not fully resolve the broader social issues concerning recognition of, and participation by the elderly in our community. On the other hand, it is equally clear that adequate retirement incomes are a necessary part of any solution. They provide financial security and independence. This, in turn, allows the elderly the freedom to choose how they wish to participate in community life. In addition, adequate retirement incomes in themselves provide a measure of recognition and self-respect for the elderly.

In short, adequate retirement incomes are the economic base on which an improved quality of life for the elderly can be built.

Inadequate Retirement Incomes

The figures differ somewhat from study to study, but the conclusion is generally the same — the incomes of the elderly are inadequate. A large proportion of the elderly live in poverty, while a substantial number of the remainder suffer a significant decline in their standard of living following retirement.

It is generally agreed that:

- more than three-fifths of unattached elderly persons live in poverty;
- more than one-fifth of elderly family units live below the poverty line;
- more than 50 percent of persons over age 65 receive full or partial Guaranteed Income Supplement payments and would be below the poverty line if it were not for this income tested program;
- more than 15 percent of all old age pensioners receive the maximum Guaranteed Income Supplement which means they have virtually no other source of income;
- almost half of all the income of elderly persons is from the basic Old Age Security and Guaranteed Income Supplement programs;
- a much greater proportion of elderly women than men live in poverty; and
- the proportion of elderly persons living below the poverty line increases with age.

In brief, many elderly Canadians live in poverty, while many more live on the verge of poverty.

It is also generally recognized that a substantial proportion of the elderly who are not poor, have nevertheless had to adjust to a significantly reduced standard of living following retirement.

Nor do the various studies expect the income situation of the elderly to improve much over time given current pension arrangements. Canada/Quebec Pension Plan benefits and some private pension plan payments may displace some Guaranteed Income Supplement and provincial income supplement expenditures as these plans mature, but the fundamental inadequacy of retirement incomes generated by the present public and private retirement income system is now generally acknowledged.

The Government of Saskatchewan accepts this conclusion that retirement incomes are and will continue to be inadequate, and must be improved over time.

Current Retirement Income Arrangements

Canada's current retirement income arrangements include several major components:

- a universal, flat rate, national Old Age Security program;
- an income-tested, federal Guaranteed Income Supplement program;
- a number of differing income-tested, provincial "top-up" income supplement programs;
- contributory Canada and Quebec Pension Plans providing earnings related benefits;
- a great variety of "voluntary" private pension and retirement savings arrangements; and
- an array of tax measures affecting savings for retirement and taxation of retirement income.

Overall, current retirement income arrangements are complex, the components only partially co-ordinated, coverage uneven, and the outcome inequitable. We must agree with the Royal Commission on the Status of Pensions in Ontario: "there is at present no *system* for retirement income provision . . . in Canada" (emphasis added).

A simpler, more consistent, and co-ordinated system for ensuring adequate and equitable retirement incomes to Canada's older citizens is desirable.

Failure of Private Pension Plans

When the Canada/Quebec Pension Plans were established, the level of income replacement to be provided under the plans was set at a deliberately minimal level of 25 percent of average adjusted earnings in order to leave substantial room for private pension plans to provide additional coverage. Private pension plans were to be an integral part of the total pension system — a third tier of benefits, without which only minimal retirement incomes would be ensured.

In the fifteen years since the Canada/Quebec Pension Plans were implemented, employer sponsored pension plans have expanded in number, membership and assets. Nonetheless, it is now abundantly clear that a voluntary, occupational pension system can not provide additional benefits to ensure adequate retirement incomes for *all* earners.

The failure of private pension arrangements has been thoroughly analyzed in several of the recent reports. It is generally agreed that the major problems are:

(a) Coverage
Less than 45 percent of Canada's paid labour force are members of employer sponsored pension plans. In the public sector, close to 90 percent of all employees are members, but in the private sector less than one-third of paid workers are members. Turning it around, more than two-thirds of all private sector workers in Canada are not members of an occupational pension plan. In Saskatchewan, approximately 75 percent of private sector employees are not members of any employer sponsored plan.

(b) Vesting and Portability
The extent to which workers will receive benefits is much more limited than indicated by the membership statistics above. Due to the vesting rules in employer sponsored plans which establish when an employee becomes entitled to a benefit under the plan, and to the general lack of portability of credited service, contributions and benefit entitlements between employers, only a small percent of members in occupational plans ever receive pension benefits from the plans.

Only 12 percent of the income of elderly persons from all sources comes from occupational pension plans, and approximately half of this is from plans sponsored by public sector employers.

(c) Maintenance of Benefit Values
Even if an employee is fortunate enough to qualify for benefits under a private pension plan, the value of his or her benefits may be seriously eroded in periods of high inflation.

An average worker retiring at age 65 during a period of eight percent annual inflation will see the purchasing power of his or her pension eroded by 65 to 75 percent

during his or her retirement. While many employer plans have granted ad hoc increases to benefits-in-pay, these have generally fallen substantially short of the rate of inflation over the period.

The situtation for the person entitled to a deferred pension is usually worse. The benefit is also eroded during the deferral period. Nor is it usual to up-grade deferred benefits.

(d) Surviving Spouse's Benefits
Some private pension plans normally provide surviving spouse's benefits. More often they are offered as an option, with a reduced initial pension. Consequently, the retiring employee will frequently reject this option.

This failure of the private pension system to ensure surviving spouse's benefits is one of the factors contributing to the poverty of many elderly women.

In addition to these four major problems in the private pension system, several other shortcomings have also been identified. These include the need for greater disclosure of information to plan members, the lack of procedures for appealing administrative decisions affecting member benefits, the limited participation of plan members in plan management, weaknesses in ensuring benefits on plan terminations, and the need to further strengthen solvency provisions.

Registered Retirement Savings Plans

Registered Retirement Savings Plans (R.R.S.P.s) have become a highly publicized and growing component in the retirement income system. The number and value of R.R.S.P.s have grown rapidly throughout the 1970's. It would be incorrect however, to assume that they have or can fill the gap in coverage left by private pension plans.

It is estimated that approximately 12 to 13 percent of tax filers contribute to R.R.S.P.s. About half of the contributors are also members of contributory pension plans. Others may be members of non-contributory plans. Of the remainder, many are self-employed persons. It is estimated that as many as 20 percent of self-employed persons contribute to R.R.S.P.s. This higher level of participation is, of course, accounted for by their exclusion from participation in registered pension plans.

Contributors to R.R.S.P.s are generally in middle and upper income categories, with the proportion of contributors and the average size of contributions rising with income. In this regard, it should be noted that the value of the tax deductibility of contributions is zero to anyone with no taxable income, minimal to most low income earners, and increases as incomes and marginal tax rates rise. In short, R.R.S.P.s are a generally regressive tax measure which increases the extent of savings for retirement among higher income earners, but does not substantially expand the coverage of private pension arrangements.

Tax Deferral on Contributions

It should be noted that despite the serious limitations of current private pension and retirement savings arrangements, the deferral of income tax on contributions to registered pension plans and registered retirement savings plans will cost the federal and provincial governments an estimated 3.8 billion dollars in foregone revenues in 1980.

In other words, despite the fact that registered pension plans and registered retirement savings plans are in the private sector, they have a very significant cost to the public treasury. For the sake of comparison, the "tax expenditure" cost of registered pension and retirement savings plans is equal to approximately 70 percent of total expenditures on Old Age Security payments, or more than double total Guaranteed Income Supplement expenditures.

The Aging Population

Canada's population is aging. The number and proportion of citizens over the age of 65 are increasing. This trend will continue, and is expected to accelerate when the "baby boom" generation reach retirement in the 2011 to 2031 period.

Presently in Canada, less than nine percent of the total population is over 65 years of age. Depending on the assumptions used, this proportion is expected to increase to 12 to 15 percent in 2011 when the "baby boom" begins to retire. Subsequently, the ratio of the elderly to the total population is expected to rise to somewhere in the range of 17 to 25 percent by the time it peaks in approximately 2031.

Whereas there are currently seven employed persons in Canada for each retired person, the aging of the population means that there will be only two or three workers for each retired person by 2031.

In Saskatchewan, persons over 65 years of age are already 11.8 percent of our total population. This is the highest proportion of elderly citizens of any province in Canada. We are already at the ratios which will only be experienced in Canada as a whole around the turn of the century. Our projections would indicate that the ratio of elderly in Saskatchewan's total population will continue to grow and we will remain at the upper end of the projections through the 2011 to 2031 period. This is why the issue of adequate retirement incomes is so crucial to Saskatchewan, and why we view it with considerable urgency.

Some have suggested that the growing proportion of the elderly will be offset by a reduced proportion of young dependents. Available projections do seem to indicate that the total dependency ratio (the number of persons under 18 plus the number of persons over 65 as a percentage of the population aged 18 to 65) will decrease for a period as the youth dependency ratio declines faster than the elderly ratio increases. Then it will increase again as the youth ratio stabilizes and the elderly ratio accelerates in the 2011 to 2031 period. But, as the Economic Council of Canada has noted, per capita public expenditures on the elderly are currently estimated at three times those spent on the young. Thus from a public policy perspective, the aging of the population is a major concern in that it makes it much more difficult to ensure adequate retirement incomes for the future elderly.

Saving for Retirement

As the population ages, government expenditures directed toward the elderly will increase. The Economic Council of Canada has estimated that by 2031, public

expenditures on retirement income programs will increase from the current four percent of Gross National Product to something between 12 to 17 percent depending on benefit levels and demographic assumptions. In addition, other expenditures on the elderly will also have to substantially increase. Health care costs are a major example.

Put quite simply, the Government of Saskatchewan is very concerned that, as the population ages, the willingness of the active labour force to support the required level of expenditures on the elderly will be eroded. Our concern is made more acute by the large requirements for investment capital anticipated over the next several decades. Will workers be prepared to pay the increasing cost of income support and services for the elderly when a growing portion of society's current income is needed for investment purposes to meet Canada's energy requirements, develop our resources, and revitalize our industrial structure. We fear that future earners will be squeezed between the need for investment capital on the one hand and support of the elderly on the other. Their share of current income will decline over time.

In our view, this situation raises the very real possibilities of a major confrontation between generations as the population ages. If the potential for such conflict is to be reduced, then there is an immediate need to set in place mechanisms to ensure that the active work force, and employers on their behalf, save more for their own retirement in order to provide more adequate retirement incomes for themselves in the future. It is important to act soon, so that the "baby boom" generation which is already in the labour force, is able to allocate a reasonable amount for their own retirement with a minimum of disruption to their current consumption. In this way, workers will be providing part of the investment capital which is required, so that when they retire they can receive a portion of their retirement income by way of an accumulated return on their investments rather than from tax supported programs. In turn, this should help to contain the potential tax burden on future generations by sharing the cost of providing improved retirement income between generations.

Pensions and Economic Power

Pensions are big business. Pension fund assets in 1979 are estimated to be more than $55 billion. Moreover they are growing rapidly (an average of 15 percent per year since 1970; almost 20 percent in the last year).

The Economic Council reports that trusteed and insured pension plans accounted for 30 percent of the total increase in corporate bonds held by Canadian financial institutions and for 45 percent of the increase in stocks, between 1961 and 1977. The importance and influence of pension funds in Canada's capital markets continues to grow. Trusteed pension funds have now become the second largest category of institutional investors in Canada, second to chartered banks but ahead of insurance companies.

These funds are now sufficiently large to raise concerns regarding their impact on the efficient functioning of capital markets, and their effects on economic growth and development.

Moreover, pension fund assets are largely controlled by relatively few actors — a small number of large, independent pension plans, the major trust companies, and the main insurance companies. This concentration of control, with its overlap to other major institutional investors — trust and insurance companies — reinforces concerns regarding the public policy implications of the growing economic power of Canada pension funds.

2. THE NATURE OF THE SOLUTION

An Adequate Minimum Income

There seems to be general agreement among all participants in, and observers of Canada's pension system that it is the responsibility of government to guarantee a basic, minimum income for the elderly so that no elderly person must live in poverty due to inadequate income.

The Government of Saskatchewan concurs that this is an important responsibility of governments. We believe that this responsibility is, in the first instance, best met through improvements in Canada's Old Age Security/Guaranteed Income Supplement programs. In other words, a national solution to this problem is, in our view, most appropriate.

Several proposals for improvements in Canada's minimum retirement income structure have been made in recent years. For the most part, these have involved increases in Old Age Security payments, increases in maximum benefit levels under the Guaranteed Income Supplement program, and the possible addition of a "living alone allowance". This latter is a proposal designed to get more money to those who most need it — unattached elderly persons in urban areas who rent accommodation.

While the Saskatchewan government remains open to discussion on the issue of the appropriate mix of measures, and the precise level of the guaranteed income floor which should be established, we support the need for improvements in this area as quickly as possible in order to put an end to the poverty currently faced by all too many of Canada's older citizens, particularly elderly women living alone.

Maintaining Pre-Retirement Living Standards

For the average wage earner, living on a basic, minimum retirement income would require a substantial adjustment in their standard of living. Consequently, it is generally recognized that an earnings related retirement income is also required.

The Canada/Quebec Pension Plans provide such an income. However, it is important to note the inter-relationship between these plans and the Guaranteed Income Supplement program. For each dollar of earnings related pension income, the Guaranteed Income Supplement is reduced by 50 cents. If the pensioner is also receiving a provincial "top-up" or supplement, it may also be reduced by 50 cents for each dollar of C/QPP income.

Given the level of benefits currently being paid by C/QPP, many pensioners continue to qualify for partial GIS benefits and provincial supplements. Indeed, any pensioner with maximum C/QPP benefits plus OAS, but without any other income, will qualify for a partial GIS benefit.

Thus, there is a sense in which the GIS and provincial top-up programs on the one hand, and C/QPP on the other, are offsetting means of guaranteeing a minimum income for those with no other sources of retirement income.

Additional pension benefits are provided through private pension and retirement savings plans. But as indicated in the previous chapter of this paper, private pension and retirement savings plans have failed to ensure adequate retirement incomes for many of our older citizens.

The issue which must now be addressed is whether a system of private pension and retirement savings measures which is based on individual, union and/or employer initiative can ever ensure adequate retirement incomes for all Canadians.

The recent reports have many proposals for improving private pension plans. Indeed, the Government of Saskatchewan has already passed major amendments to our Pension Benefits Act up-grading the minimum standards for private pension plans.* But such measures essentially address issues regarding the equity and allocation of pensions under private plans. Indeed, if the standards required to provide entirely adequate pensions for all members were now legislated, it is quite possible that many existing plans would be terminated. In a voluntary private pension system there is a practical trade-off which must be made between the adequacy of standards and coverage under the system. In Saskatchewan's view, it is simply not realistic to expect that a voluntary private pension system will achieve universal coverage and adequate benefits for all retired earners.

While proposals for locked-in registered retirement income vehicles to which employers can contribute, and for multi-employer money accumulation plans directed toward small employers might improve private sector coverage somewhat, we remain convinced that the coverage issue can only be adequately addressed through compulsory measures.

Briefly stated, the Government of Saskatchewan believes that ensuring adequate retirement incomes is a social or community responsibility rather than an individual or family responsibility. Action by government on behalf of all citizens is required.

The need for compulsory measures to address the coverage problem is, in our view, supported by all of the major governmental reports. Indeed, there appears to be a growing, if somewhat reluctant, acceptance of the need to mandate minimum pension coverage for all earners, even in the private sector.

Two Alternatives

Once it is accepted that a compulsory means of ensuring adequate retirement incomes is needed, there are two fundamentally different routes which can be taken:

(a) mandatory participation in a private pension plan meeting legislated minimum standards; or
(b) expanding the Canada/Quebec Pension Plans.

A wide variety of specific proposals are possible under each approach. For the purposes of discussion, however, it is helpful to give some greater definition to each alternative. The

* A summary of the recent amendments to Saskatchewan's Pension Benefits Act is included at the end of this paper.

outlines presented below are illustrative only. They do not necessarily constitute endorsement of any of the design features listed:

(a) Mandatory Private Coverage
For the purposes of discussion, we will outline what might be called a "best standard" or maximal proposal for mandatory private coverage. In other words the minimum standards proposed are as high as are likely to be proposed by any reasonable advocates of reform. This outline is similar in many respects to proposals recently made by the Canadian Life and Health Insurance Association.

- Every employer would have to provide either a money accumulation, defined benefit, or combined pension plan for employees which meets the minimum requirements.
- A minimum level of contributions to a money accumulation plan and a minimum level of benefits under a defined benefit plan would be prescribed. These would be comparable standards. The levels set could relate to all eligible earnings, or could be varied by earnings level (for example, 25 percent of earnings up to .5 times the average industrial wage, 55 percent of earnings between .5 and 1.5 times the average industrial wage).
- All employees with eligible earnings would be required to join the plan.
- Earnings up to 1.5 times the average industrial wage would be covered.
- Vesting and lock-in would be immediate without any age or service requirements.
- Employees would have transfer rights on termination of employment. The transfer value would be twice the amount of the employee's accumulated account or the value of the deferred defined benefit based on prescribed value tables using a real rate of return interest assumption.
- Pensions-in-pay would be indexed to the excess earnings on the fund over a specified real rate of return.
- A mandatory surviving spouse's benefit providing at least two-thirds continuance on the death of the first spouse would be required unless waived by both parties.

(b) Expanded Canada/Quebec Pension Plans
For comparison purposes, expanded Canada/Quebec Pension Plans can simply be considered to provide improved benefits in line with those outlined in the mandatory private coverage proposal. In other words:

- The defined benefit provided would be the same as that prescribed under the mandatory plan. It could continue as a flat rate, or be varied with earnings levels.
- Eligible earnings would be increased to 1.5 times the average industrial wage.
- Survivors' benefits would be raised to 66-2/3 percent.

Immediate vesting and lock-in, total portability of pension credits, and indexation of benefits would, of course, continue.

3. CRITERIA FOR AN ADEQUATE RETIREMENT INCOME SYSTEM

In order to assess and compare these two alternative approaches for ensuring adequate retirement incomes, a clear set of evaluation criteria is required.

The Government of Saskatchewan has established eight principles which we believe any proposal for ensuring adequate retirement incomes must meet. These are our criteria for an adequate retirement income system.

Universality

An adequate retirement income system must be universal. Its various components must provide benefits to all Canadians, earners and non-earners. The earnings related part of the system must include all earners regardless of age, length of service, or type of employment. It should also include the self-employed.

Portability

Membership and benefit entitlements should be fully portable throughout Canada. Earnings related benefits should be accumulated for all periods of paid employment and benefit accumulations should not be reduced by changes in employment or movement in or out of the labour force.

Pooling

Within a national pension system, there should be a pooling of contributions in order to spread the risks and uncertainties of old age and to allow for flexibility in meeting changing retirement income needs over time.

Equity

The system must be equitable. Benefit and contribution formulas must be fair and should generally be progressive. There should be no discriminatory provisions. In particular, the system should treat men and women on an equal basis.

Adequacy

The benefits must be adequate. The system must ensure that the incomes of all retired people are maintained above generally accepted poverty levels. At the same time, it must ensure that middle income earners do not suffer a significant decline in their standard of living following retirement.

Appeal Rights

All participants should have the right to appeal decisions affecting their benefit entitlements to an independent third party. Only in this way can fair treatment for all be guaranteed.

Accountability

The retirement income system must be accountable to its participants — the public. It must operate in, and be seen to operate in the public interest.

Affordability

The system must be affordable. It must provide benefits at reasonable cost that the community can afford. It must have the simplest possible administrative structure and must minimize overhead costs.

4. ASSESSMENT OF THE ALTERNATIVES

Which of the two alternatives can best meet these criteria? In answer to this question, it is important to concentrate on the basic nature and inherent limitations of each alternative rather than on any variable design features of a particular proposal. Only in this way can a rational choice be made between the alternatives.

Universality

The Old Age Security and Guaranteed Income Supplement programs cover all Canadians, earners and non-earners.

The earnings related Canada/Quebec Pension Plans cover all earners, regardless of age, length of service, or type of employment. Part-time workers, mobile employees, long service workers, and self-employed persons are all already included in the C/QPPs.

Under proposals for mandatory private pension coverage, part-time earners, short service employees, and young workers are often excluded from participation for "administrative simplicity". On the other hand, mandatory private coverage can be designed to cover all earners, but doing so substantially increases its complexity.

Including self-employed persons under mandatory private coverage will require changes in federal income tax provisions. New rules establishing contribution limits and acceptable benefit provisions will have to be established.

Portability

Participation and benefit entitlements are fully portable throughout Canada under the Canada/Quebec Pension Plans. Benefits are accumulated for all periods of paid employment and benefit accumulations are unaffected by changes in employment or movement in or out of the labour force.

Under a system of mandatory private coverage, portability can become somewhat complex. Small pension entitlements may be accrued by part-time and short service employees with a number of separate employers. Either each plan must keep track of a growing number of such entitlements over long periods of time — thereby increasing costs — or the value of benefits must be transferred from plan to plan, or to another pension vehicle controlled by the individual. The valuation of benefits in defined benefit plans, the paper work required to effect transfers, and the actual transfer of monies all add to the cost and complexities of the system. As well, they increase the requirements for supervision and regulation of the system.

In other words, a substantial degree of portability can be achieved under mandatory private pension coverage but at the expense of increased cost, complexity and regulatory

requirements. In addition, the possibilities for losing track of benefit entitlements are inevitably greater than under the C/QPPs.

Pooling

The Canada/Quebec Pension Plans achieve the full benefits of pooling. All members contribute to one pool of monies from which all benefits are drawn. The contingencies of disability, pre-retirement death, post-retirement life expectancy, and the possibilities of a surviving spouse are all shared on the broadest possible basis. In addition, benefits can be adjusted from time to time to meet the retirement income needs of participants as they emerge over time.

In a mandatory private pension system the possibilities for pooling are substantially reduced. Pooling is limited to the much narrower level of individual plans. With full and immediate vesting, minimum matching employer contributions, rules for valuing benefits, and benefit transfer rights, the possibilities for pooling are generally restricted to the post-retirement period — a sharing of the risk of life expectancy after retirement.

Equity

A public pension system incorporates one set of standards for benefits and contributions which can be designed to ensure fairness and progressivity. The design of the plan is open to public scrutiny and debate and can be adjusted, if required, to eliminate any inadvertent inequities.

Under mandatory private coverage, the minimum standards set by legislation can be designed to meet similar tests. But any benefit provisions over and above the minimum standards cannot be as easily controlled. Doing so would require various equity tests to be incorporated into the legislation.

It should be noted in this regard that the history of private pension plans presents many examples of inequities, cross-subsidies and discriminatory provisions. To ensure that such provisions do not re-occur in a mandatory private system would require an active regulatory process.

Adequacy

Once an adequate standard has been defined with respect to the maintenance of pre-retirement income, it can be incorporated into either an expanded public pension system or as a provision of the minimum standards under mandatory private coverage.

However, the adequate standard is fully guaranteed in the Canada/Quebec Pension Plans. Post retirement benefits are up-graded in accordance with the consumer price index. They do not depend on the earnings of the fund.

With mandatory private coverage, the adequacy standard is usually proposed in terms of both an adequate benefit level for defined benefit plans and an adequate contribution level for money accumulation plans. With monies in a money accumulation plan, or benefit entitlements transferred from a defined benefit to a money accumulation pension vehicle, the value of the pension which will be available in retirement depends on the earnings experience of the fund, its variability over time, and annuity rates at the time of retirement. The level of benefits are not guaranteed.

Nor will the value of benefits-in-pay under mandatory private plans necessarily keep up with inflation if they are related to the excess earnings of the fund.

Thus, an adequate benefit standard can be built into mandatory private coverage which will ensure much more adequate benefits than are now provided by many private plans, but it is highly unlikely that a system of mandatory private pensions can provide the same degree of security of benefits as can expanded C/QPPs.

In addition, under a mandatory private pension system, the adequacy standard would only be achieved after a 30 to 40 year maturation period. Achieving a particular benefit adequacy standard over a shorter period can be more easily accomplished within an expanded public pension system than under mandatory private coverage.

Appeal Rights

Most public income security programs have established appeal rights, procedures and mechanisms to arbitrate disputes affecting members' benefits.

To date, very few private pension plans have established any third party appeal or arbitration procedures. Normally the decision of the pension plan administrator or the Board of Trustees is final. The only appeal is to the courts which can be both lengthy and costly. However, it would be possible to incorporate into the minimum standards under a mandatory private pension system a requirement for each plan to provide for the independent arbitration of claimant disputes. Alternatively, an independent appeal body could be established to deal with all pension benefit disputes arising from private plans. This would allow for the development over time of a more consistent body of decisions on such matters than would separate plan appeal procedures.

In either case, the complexities involved in an appeal system for mandatory private plans would be somewhat greater than in an expanded public sector plan due to the greater diversity in plan provisions.

Accountability

Public pension plans are accountable to their participants — the public — through their elected representatives. In addition, advisory committees are often utilized to improve participant input.

Standards for the participation of plan members on the Boards of Trustees and the Investment Committees of private pension plans could be established to provide for accountability under a mandatory private pension system. However, it is not clear how effective such participation would be in representing active employee member interests, pensioner interests, and the interests of deferred pensioners. It also provides no means of accountability for the total mandatory private pension system. Instead, under mandatory private coverage, the public interest must be protected through extensive regulatory and enforcement procedures with their attendant public sector costs.

Affordability

Expansion of the Canada/Quebec Pension Plans is a relatively simple matter. The contribution collection system is in place, as are the record keeping and benefit payment systems. Expansion simply changes the amounts to be collected and dispersed. It would not even increase the volume of transactions involved. Consequently, such an expansion is practical and cost effective.

Mandatory private coverage, on the other hand, would involve an expansion — approximately a doubling — of an already complex and confusing array of private pension plan arrangements. The costs of product development, marketing, multiple record keeping and administrative systems, transferability, and profit margins — all absent from the public system — would be built into a mandatory private pension system. As well, these overhead costs might be heaviest for the small employer. In addition, the costs of an expanded regulatory system in the public sector must also be taken into account.

Conclusion

From this assessment, the Government of Saskatchewan can only conclude that expansion of Canada's public pension system is simpler, easier to understand, much more fully satisfies the criteria for an adequate retirement income system which we have outlined, and is generally more efficient and effective than mandatory private coverage could be.

Private Sector Role

It should be noted that expanded C/QPPs will not eliminate private pension plans. They will continue to have an important, although perhaps a smaller role in meeting the special pension needs for particular groups. This customized supplementation role is one which can be best provided through private sector arrangements. It can be anticipated that two of the needs to be filled by private plans will be early retirement benefits and additional coverage for earnings in excess of the eligible earnings ceiling.

5. CONTINUITY AND PRECEDENTS

Social Security in Canada

This conclusion — that adequate retirement incomes can best be provided through public pension measures — is neither new, nor radical. A similar conclusion has been reached many times before in Canada by governments of all political persuasions. It is the basis on which all of our social security programs — federal and provincial — are built.

It is consistent with the decisions many decades ago by all provincial jurisdictions to establish compulsory Workers' Compensation programs. It is in the tradition of Saskatchewan's public medical care insurance plan, and the subsequent establishment of a national, universal medicare system. It is consistent with past decisions to establish a national, public unemployment insurance program to ensure adequate income replacement for unemployed persons. It is also compatible with the establishment of the Canada/Quebec Pension Plans in 1966 to provide basic earnings related retirement benefits. Indeed, the conclusion that social and income security can best be ensured through public insurance measures has come to represent the mainstream of Canadian social policy over the years.

Moreover, there has been a recurring call for a more comprehensive, integrated social security system in Canada. It was first and perhaps most fully articulated in the 1943 "Marsh Report" on *Social Security for Canada*, and has been reiterated as recently as 1973 in the federal government's *Working Paper on Social Security in Canada*.

The desire for a more comprehensive, integrated and uniform social security network in Canada is one which Saskatchewan shares. We believe that an enlarged national pension system must be part of that network.

Canada's Experience with Mandatory Private Coverage

During the evolution of Canada's social security measures, Canadians have had a limited experience with some forms of mandatory private coverage.

When the Ontario government entered medicare they attempted to do so through a form of mandatory medical care insurance. The Ontario government enrolled poor risk categories of individuals under the Ontario Medical Services Insurance Plan, while more than 200 separate insuring agencies, each with its own administration and premium collection systems, provided coverage under government auspices through Physicians' Services Incorporated.

The system was complex and cumbersome. It was fraught with administrative difficulties. In the end, it was abandoned in favour of a universal, public medical insurance plan.

Ontario also started down the path of mandatory private pension coverage. The Ontario government passed its original Pension Benefits Act in 1963 which would have required all employers in Ontario with more than 15 employees to establish a pension plan meeting the minimum standards set out in the legislation. With some reluctance perhaps, the Ontario government gave up this approach in favour of participation in the Canada Pension Plan in order to achieve national uniformity and portability. There are few persons today, including those in the private pension industry, who would suggest that this was the wrong choice. The arguments today for expanded Canada/Quebec Pension Plans are as compelling as were the original arguments for establishing them.

The International Context

International comparisons of retirement income systems involve difficult methodological issues and are often somewhat imprecise. Nonetheless, it is clear from a number of I.L.O. and O.E.C.D. studies, as well as the international comparisons made in some of the recent governmental reports that Canada's public retirement income security system differs from those of other western industrial nations in several important respects:

(a) our benefit levels for middle income earners are lower than many other nations;
(b) our eligible earnings ceiling (YMPE) is significantly below those of other industrial countries;
(c) our contribution rates, both employee and employer, are very low by comparison; and
(d) employers pay for a smaller portion of the total costs of the retirement income system than in many other nations.

In short, several other industrial countries, particularly in Europe, have more adequate public retirement income systems than is presently the case in Canada. These nations demonstrate the viability of an expanded public pension system.

6. DESIGN ISSUES WITH RESPECT TO AN EXPANDED C/QPP

Once it is agreed that Canada's public pension system should be expanded, it becomes necessary to determine the nature of the specific improvements to be made. What are the key features of an adequate C/QPP? Indeed the design of an expanded C/QPP may be a factor in some people's mind in determining whether an adequate retirement income should be provided through the public or private sectors. Thus, it is useful to discuss some of the key design issues involved in improving the C/QPP.

The discussion here is neither exhaustive, in that it only addresses the more major issues, nor definitive in that it neither examines all aspects of each issue nor necessarily ends with a firm conclusion. Instead, these issues represent the major concerns that Saskatchewan would wish to raise regarding the benefit structure of an improved C/QPP.

Income Replacement Ratio

The C/QPP presently replaces 25 percent of pre-retirement income up to the earnings ceiling.

There appears to be relatively general agreement in the recent reports that an earnings related income replacement ratio of 40 to 50 percent would be required in addition to OAS to substantially maintain the pre-retirement standard of living of middle income earners.

Yearly Maximum Pensionable Earnings

The design of the C/QPP presently places a yearly maximum on the earnings used in calculating benefits earned under the plan.

The yearly maximum pensionable earnings (YMPE) is $14,700 in 1981. The intent for some years has been to raise the YMPE to the average industrial wage (AIW). To this end, the YMPE is increased each year by 12½ percent until it reaches the AIW.

Several of the recent reports recommend that the YMPE should be raised immediately to 1.5 times the AIW. This would allow many more middle income earners to receive more adequate benefits under the plan. Workers with earnings between 1 and 1.5 times the AIW would be eligible to receive the full income replacement ratio on their earnings. Now they face a diminishing replacement rate on total earnings as their incomes increase above the AIW.

On the other hand, the 1.5 times the AIW ceiling will put a realistic cap on the maximum benefit level. It is simply not an acceptable objective for a public income security program to ensure very substantial benefits to high income earners.

We note that a ceiling of 1.5 times the AIW is approximately similar to the ceiling Saskatchewan uses in its Workers' Compensation program.

Post-Retirement Survivor's Benefits

Until all citizens are able to earn full benefit entitlements within the C/QPP, post-retirement survivor's benefits will remain an important source of income for elderly persons, especially women. The adequacy of these benefits is therefore most important.

The Federal Task Force Report suggests that they be raised from 60 percent to 66-2/3 percent of the deceased's benefit. It also suggests that the retirement pension of a married individual be reduced to two-thirds of its value on the death of the spouse in order to achieve greater equity. This change would finance the increase in the level of survivor's benefits.

Splitting of Pension Credits

Another reason that some elderly women are poor is that they have not received an equal share of pension credits accumulated by both spouses during a marriage. With the growing frequency of divorce, it is readily apparent that this will become an increasingly significant cause of low incomes among elderly women.

To improve this situation, the Canada Pension Plan was amended. Effective January 1, 1978, a legally divorced person was given the right to apply to have all CPP credits earned during the marriage by either spouse, split equally. Unfortunately, it would seem that this provision has been largely ineffective. Between January 1978 and March 1980, there were only 970 applications for credit splitting. This compares to 86,000 divorces granted in Canada (outside Quebec) during 1978 and 1979. Splitting has been applied for in less than 1.2 percent of divorces.

Some further action would seem to be called for to ensure that each partner to a marriage receives a fair share of CPP pension credits earned during the marriage. One proposal in this regard is called "general splitting". It would see CPP pension credits earned by a married contributor split and credited equally to each spouse's account at the time they are earned. This not only results in each party to a marriage receiving half the pension credits earned during the marriage, it also results in each spouse receiving their own CPP cheque for all benefits credited to their account, even if they have never worked. This direct entitlement to benefits is advocated by many women's groups.

Low Income Earners

One concern which arises with proposals to expand C/QPP is that it is possible that low income earners may have their lifetime incomes reduced. If contribution rates are increased across-the-board, low income earners will have to contribute more to the C/QPP, thereby reducing further already inadequate current incomes. On the other hand,

the larger C/QPP benefit which they receive at retirement will be offset by reductions in GIS and provincial top-up payments. In fact, this may simply amount to a requirement for low income persons to pre-fund the benefits that would otherwise have been paid from general revenues. This is an unintended result. It is unfair and regressive. The benefit and contribution structures need to be designed to eliminate this effect.

One proposal to achieve this was put forward in the Cofirentes+ Report, namely, to provide a higher income replacement ratio for lower income earners, with a single contribution rate. Their proposal was for a 50 percent income replacement rate up to half the yearly maximum pensionable earnings, dropping to 25 percent on the remainder. This approach pre-funds benefits which replace GIS and provincial top-up payments, but it does so in a more progressive way. Nonetheless, it would still result in a reduction in current income for low income earners through larger current contributions than would have otherwise prevailed.

Another proposal, called the "exemption approach" in the Federal Task Force Report, is almost the opposite of the Cofirentes+ proposal. In essence, low income earners would be exempt from both incremental contributions and benefits. Contribution rates and income replacement ratios would increase with income levels. Thus, it is proposed, for example, that 25% of income might be replaced up to one-half the AIW and 55% from .5 to 1.5 times the AIW. Contribution rates would be set accordingly. Thus, low income earners (below .5 AIW in this example) would not have to contribute any more than presently and would continue to qualify for income-tested benefits. Persons with higher incomes would receive C/QPP benefits which, as a percentage of pre-retirement incomes, increase with earnings. In summary, then, the exemption approach does not reduce the lifetime income of low income persons but continues to leave them dependent on the "welfare" component of the retirement income system.

A third approach involves a progressive contribution system, with contribution rates increasing as earning levels increase, but with a single income replacement level for all members. In this way contributions could be kept low for low income earners, while increased above the level required to cover their own benefits for high income earners. Alternatively, the additional contributions required for lower income earners could be obtained through higher employer levies.

This is an important issue in designing a fair and equitable C/QPP which will receive general public support. It is an area, while briefly addressed in some of the recent reports, has not received sufficient attention. It is quite possible, however, that in solving this problem a deliberate degree of income redistribution will have to be built into the C/QPPs.

Small Employers

A somewhat parallel problem exists on the employer side. The higher contribution rates will bear most heavily on employers without private pension plans, primarily small employers. For employers with private plans, they can reduce their benefit provisions to accommodate the improved C/QPP benefits and in so doing reduce the costs of these plans. Indeed, if the increased portion of the C/QPP benefits is not fully funded, then employers will experience a greater drop in costs than is required by the increased contributions. Thus, employers with existing private plans may actually face cost reductions, while employers without existing plans will have to absorb the total additional contributions.

Generally speaking, these are smaller employers. They may be operating close to the margin. As well, they generally have less ability to pass costs along to their customers. Thus, it might be desirable to design the contribution system for C/QPP to cushion the impact of the expansion on small employers.

This must be achieved while keeping the contribution system simple. One suggestion which is sometimes made, and was recommended in Cofirentes+ Report is to charge employers a flat rate on all payroll, with no eligible earnings ceiling. This increases the earnings base, thereby reducing the required contribution rate somewhat. To the extent that earnings in excess of the eligible ceiling occur disproportionately among larger employers, this will help reduce the burden on smaller employers.

Another suggestion would be to apply a progressive contribution system as suggested above with respect to employee contributions to employer contributions. Alternatively, both approaches could be combined.

Home Managers

Persons working in the home are presently excluded from the Canada/Quebec Pension Plans because their work is unpaid. Women's groups across the country have been seeking recognition for the home manager, and participation of this important occupational group in Canada's national occupational pension plan. It is argued that persons staying home to care for children or incapacitated persons should not be penalized for doing so with a lower pension in retirement. To do this is to fail to recognize the value of these services to society.

Saskatchewan is sympathetic to this position. A number of proposals have been made to recognize home management services. Three of these are discussed briefly below.

(a) Child-Rearing Drop-Out Provision

C/QPP benefits are based on career average (adjusted) earnings. When an active labour force member leaves the labour force for any period of time, that person's career average earnings are reduced as a result of the period of zero earnings. The plans allow for the years of lowest earnings, up to 15 percent of the contributory period, to be dropped from the calculation of career average earnings.

Several years ago, it was proposed to recognize the value of caring for children under seven years of age by allowing persons staying home to look after such children to also drop those years from the calculation of their career average earnings. This is known as the "child-rearing drop-out provision". In fact, this provision has been enacted under the QPP, has been passed by the Parliament of Canada, and has been approved by all provinces except Ontario and British Columbia. But with Ontario's veto power in the Canada Pension Plan, it has not been implemented. The recent Royal Commission on the Status of Pensions in Ontario called on the Ontario government to finally grant its approval.

It should be noted, however, that the value of this provision varies substantially between persons with the same child-rearing responsibilities but differing labour force participation and earnings histories. Thus, for a person who never enters the labour force, this provision provides no recognition of a period spent raising children. Similarly, it is "worth" twice as much in benefits to a person earning at the YMPE than one earning at half the YMPE for the same period.

Some analysts have therefore suggested that all periods spent raising children under a specified age, or caring for an incapacitated adult, should be credited with a single deemed annual earnings level. The costs of these provisions could be spread throughout the total plan as with the drop-out provision, or alternatively, the state could make a contribution for each year spent in recognized home management activities.

(b) Voluntary Contributions to the C/QPPs
Another proposal which has often been made is to open the C/QPPs up for voluntary contributions by or on behalf of home managers. Eligible earnings for calculating benefits would be computed based on the contributions made. The normal YMPE ceiling would apply.

While this proposal has a certain attractiveness as a "step in the right direction", it does have severe limitations. Who would likely make such contributions? In all probability, it would be primarily upper income families. This might be acceptable if contribution rates were sufficient to pay for benefits earned. But this is not presently the case, nor is it likely to be for some time. Thus, this would represent a subsidy to the more affluent. It could also be questioned whether home managers should be able to contribute at any level up to the maximum, in essence setting their own earnings level, when other paid participants can not "top-up" their contributions on a voluntary basis.

There now appears to be a growing concensus that this measure, on its own, is an inadequate response to the challenge of recognizing legitimate home management services within the C/QPPs.

(c) Compulsory Participation
If home management is an occupation and is to be included in the C/QPPs like any other occupation, then perhaps participation by home managers should be compulsory as it is for all paid occupations.

This could be accomplished as suggested above by crediting a fixed earnings level for each year of accepted home management activities and with the costs spread throughout the total plan. However, this requires all members of the plan, including low income earners, to contribute toward benefits for home managers in high income families. State contributions on behalf of home managers would avoid this problem, but simply begs the question where these monies are to come from.

Alternatively, families could be required to make contributions on behalf of home managers through the income tax system. If contribution rates were progressive as discussed above this would reduce the burden on low income families.

Another suggestion which has not been developed in any detail would involve what might be called a home manager's pension tax credit which would be related to the earning spouse's income. Thus, contributions would be made by the state on behalf of home managers in low income families and would be reduced as income increased, until higher income families were paying for their full benefits.

This area of participation of home managers in the C/QPPs is one which, despite all the reports, has received too little creative attention. It must now be a priority area if we are to develop C/QPPs which recognize the value of home manager services.

7. WOMEN AND PENSIONS

It is by now a well documented fact that women are very poorly served by Canada's retirement income system. The vast majority of the elderly poor are women.

Currently the OAS/GIS do not maintain elderly single persons, the majority of whom are women, above the poverty line. Their benefits under the C/QPPs are, on average, less than those received by men, because of lower wages and longer periods out of the labour force. The CPP currently provides no recognition for unpaid work in the home. As well, the benefit splitting provisions seem to be ineffective, and survivor benefits are less than fully adequate.

As for the private pension system, it serves women even more poorly. Coverage is least in those industries (wholesale and retail trade; community, business, and personal services) in which many women work. Where their employers do have pension plans, the eligibility criteria often exclude part-time, short-service and/or "temporary" employees, thereby excluding many women employees. If women do become members of private plans, the vesting rules often work against them. As they move in and out of the labour force and from employer to employer, they receive a refund of their contributions with generally very low interest earnings, or they receive deferred pension benefits which are substantially eroded by inflation over time. In the end, very few women receive pensions from the private pension system.

The poor treatment of women in Canada's current retirement income system is, generally speaking, a part of its overall design and structure. Adequate retirement incomes for women will not be achieved by simple adjustments in the system or the adding on of special features for women. Rather the entire reform of the pension system must take account of the pension needs of women and their working patterns in the home and the labour force. This is the approach which Saskatchewan has attempted to take in this paper. We believe that the eight principles we have outlined for an adequate retirement income system should ensure reasonable pensions for all men and women.

The position of women in the pension system in Canada is improved by many of the proposals discussed in this paper.

The improvements advocated in the OAS/GIS programs to ensure that single pensioners are maintained above generally accepted poverty lines would directly and immediately benefit a great many women and would provide a guarantee against poverty for them over the years.

The expansion of the C/QPPs will allow women to accrue larger pension benefits for all periods of employment in all industries regardless of type of work or length of service. The suggestions for improved survivor benefits and for general splitting of pension credits would also be of benefit primarily to women, achieving greater equity within the C/QPPs.

In addition, the issue of participation by home managers in the C/QPPs which has also been discussed and which has been identified as a priority area for attention, is critical to

the recognition of legitimate home management services and the provision of adequate pensions for women.

In short, Saskatchewan believes that a major expansion of the public pension system which addresses the design issues presented here will go a long way towards making women fully equal participants in Canada's retirement income system.

8. NEXT STEPS

Urgency

Canada's population has begun to age. The "baby boom" generation is already in the labour force. If they are to accumulate more for their own retirement, without having to face unacceptably high contribution levels, then they must begin to do so as soon as possible.

The consequences of not acting in the near future could be grave. The potential for significant intergenerational conflict will grow, and our ability to ensure adequate retirement incomes will be increasingly eroded.

The Government of Saskatchewan therefore views the issue of pension reform with some urgency. This is an area of social policy where the full effects are only felt in the long term. But if we are to see significant improvements in retirement incomes over time, we must reform our pension system in the near term.

Federal-Provincial Discussions

If we are to make significant progress toward reform of Canada's retirement income system, it is necessary to identify the key actors and to determine the appropriate decision-making process.

A great many persons and interest groups are involved. Financial institutions, insurance companies and employee benefits consultants are all part of the "pension industry". All employers and employees are affected. Thus employer associations and labour organizations are vitally interested. So too are women's groups and pensioner organizations. In short, all Canadians have an interest in the reform of Canada's pension system.

But who are the decision-makers with respect to pension reform in Canada? In the final analysis, the federal and provincial governments are the decision-makers on this major matter of public policy. Whether we speak of Canada's public pension system or legislating mandatory private coverage, governments at both the federal and provincial level must make the hard decisions and act on them.

This is not to say that input from the other actors in the pension system is not needed. Rather it is simply to recognize who the decision-makers are so that a decision-making process can be begun. Throughout this process, each jurisdiction will be seeking and receiving the views of all interested groups and individuals in their jurisdictions. But ultimately the decision-makers must come together and address the issues.

To this end, Saskatchewan has proposed, as early as last July (1980), that federal-provincial ministerial meetings should be held to discuss pension issues, the reform

process, and a possible timetable for change. We continue to believe that such meetings are needed as soon as possible. However, for such meetings to be productive, it is necessary for each jurisdiction to be able to express its views on pension issues so that the possibilities for agreement can be identified and pursued. We do not want to initiate a federal-provincial study of pension issues. We do not want another social security review process. We want to know if it is possible to jointly achieve reform of Canada's national pension system in the near term.

If no agreement on reform is possible — if the Canada/Quebec Pension Plans can not be improved in the near term — then the Government of Saskatchewan will have to very seriously consider what pension reform measures we can undertake in Saskatchewan to ensure more adequate retirement incomes for our citizens. We hope, however, that reform at the national level will be possible.

GLOSSARY OF TERMS

Average industrial wage (AIW) — the average earnings for the Industrial Composite of Wages and Salaries as measured by Statistics Canada.

Career average earnings formula — a pension formula where the individual's average earnings while a member of the plan are used to calculate benefits.

Compulsory plan — a pension plan which employees must join as a condition of employment.

Deferred pension — a life annuity/pension determined at time of termination of employment but not payable until some future date.

Defined benefit — formula which specifies, for a given level of income and period of service, the amount of pension that may become payable.

Earnings-related plan — any plan with a benefit formula based on earnings.

Employer-sponsored — all pension plans offered by employers whether in the public or private sector.

Funding — accumulation of assets during the working lifetime of a group of employees, which together with the earnings on the assets are expected to provide pensions and other benefits.

Income replacement ratio — measurement of retirement income by relating it to income immediately before retirement.

Income-tested — method of determining eligibility and level of benefits by including income from all sources.

Indexing — automatic adjusting of pensions or accrued pension benefits in accordance with changes in an index such as the Consumer Price Index.

Locking-in — provision whereby workers are prevented from withdrawing either their own or their employer's contributions in cash if the employee, on termination of employment, has attained a certain age and completed a period of service/plan membership.

Money accumulation (purchase) plan — plan which defines contributions to be made by employer and employees but not the benefit formula.

Non-contributory — a pension plan in which all contributions are made by the employer.

Portability — a provision which enables employees to carry their pension credits from one employer to another when changing jobs.

Registered Retirement Savings Plan (RRSP) — a savings for retirement plan approved under the Income Tax Act where taxes are deferred on the contributions and investment income until the savings are withdrawn.

Survivor's benefits — benefits payable to the surviving spouse of a deceased employee or pensioner.

Trusteed and insured pension plans — plans using the facilities for accumulation of assets and payment of benefits provided by trust companies/group of individuals (trusteed) or by insurance companies (insured).

Vesting — employee's right on termination of employment before retirement to all or part of the pension credits accrued to the employee.

Yearly Maximum Pensionable Earnings (YMPE) — term used in the Canada Pension Plan to mean the maximum annual earnings on which CPP contributions and benefits are calculated.

MAJOR GOVERNMENTAL REPORTS ON PENSION REFORM IN CANADA

1. *La Sécurité Financière des Personnes Agrées au Québec*, Comité D'Étude Sur Le Financement Du Régime De Rentes Du Québec Et Sur Les Régimes Supplémentaires de Rentes (Cofirentes+), Editeur Official Du Québec, 1977.
2. *One in Three: Pensions for Canadians to 2030*, Economic Council of Canada, Canadian Government Publishing Centre, 1979.
3. *Retirement Without Tears*, The Report of the Special Senate Committee on Retirement Age Policies, Canadian Government Publishing Centre, 1979.
4. *The Retirement Income System in Canada: Problems and Alternative Policies for Reform* (2 volumes), Task Force on Retirement Income Policy, Canadian Government Publishing Centre, 1979.
5. *Report of the Royal Commission on the Status of Pensions in Ontario*, (10 volumes), Government of Ontario, 1980.

A SUMMARY OF THE RECENT AMENDMENTS TO THE PENSION BENEFITS ACT

Employer Re-defined

The old definition of employer was defined in the singular sense and did not include all employers who participated in a multi-employer pension plan. If a deficit develops in the pension fund each employer will now be liable for their proportionate share of the unfunded liability.

Vesting

Members of pension plans must now become irrevocably entitled to their accrued pension when the employee's age plus years of service equal at least 45, provided the employee has at least one year of service. The previous rule was age 45 and 10 years of service.

Minimum Employer Contribution

Under pension plans where the benefit is defined and the employee is required to pay for part of his own pension by making contributions to the plan, a new amendment to the Act now requires the employer to pay for a minimum of 50% of the employee's pension. In other words, an employee's contributions can not be applied to purchase more than 50% of his own accrued pension benefit.

Transfer Rights

A new section of the Act permits an employee to transfer to another pension vehicle, any contributions and earnings in excess of those required to provide 50% of the deferred or immediate pension benefit to which they are entitled.

Lump Sum Refunds

There is provision to permit an employee who is locked into a pension plan to take out up to 50% of his own contributions with interest should termination of employment occur prior to retirement. This provision is only available where the employee is required to make contributions to the pension plan and does not apply to a pension plan where the employer pays the total cost of the benefits.

Spouse's Benefits

All pension plans must make provision for a surviving spouse's pension benefit providing a minimum of 50% of the deceased retired employee's pension. A pension may be taken out in a manner that pays more than 50% to the surviving spouse but can not be taken out without a spouse's benefit unless the retiring employee's spouse waives, in writing, his or her rights to a survivor's pension.

Marriage Breakdown

Pension credits could not be assigned, attached or seized under the old Act. Provision is now made whereby pension credits may be distributed by court order or interspousal agreement upon marriage breakdown.

Disclosure

Provision regarding information to be given to members of pension plans was transferred to the regulations by an amendment to the Act. The new regulations will give employees full disclosure in the future with regard to the administration and operation of the pension plan in which they are a member.

Minimum Interest Rate

The amended Act now makes provision for the Superintendent to prescribe a minimum rate of interest to be applied to employee contributions. The minimum rate will be the average ten year yield on long term Government of Canada bonds. Last year the rate would have been 8½%.

Standard Value Tables

Another provision of the amendment permits the Superintendent of Pensions to prescribe tables to be used to value employee pensions on termination of employment and retirement. New tables will be prescribed each year to reflect any changes in current economic conditions that may arise from year to year.

Trusteeship

Where the employee's interests may be in jeopardy or when an employer refuses to meet the requirements of the legislation, the Superintendent may place the plan under trusteeship. It is anticipated that this authority will be seldom exercised and if required, a corporate trustee would likely be appointed.

Business Take-overs

All employee service and pensions earned while employed by the original employer will continue to his/her credit under the new employer's operations when one firm takes over another.

Contributions Held In Trust

All employee and employer contributions, including any payments to liquidate deficits are considered to be held in trust by the employer until such time as they are actually deposited into the pension fund. This provision is designed to enhance the possibility of collecting outstanding payments when an employer declares bankruptcy or goes into receivership.

Effective Date

These amendments become effective July 1, 1981.

Further Information

For further information regarding the amendments to the Pension Benefits Act and the regulations thereunder, contact:

Mr. J. M. Crozier
Superintendent of Pensions
Pensions Branch
Saskatchewan Labour
1914 Hamilton Street
Regina, Saskatchewan
S4P 4V4
(306) 565-2458